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1956 AGRICULTURAL FINANCE OUTLOOK

Production Economics Research Branch
Agricultural Research Service
UNITED STATES DEPARTMENT OF AGRICULTURE

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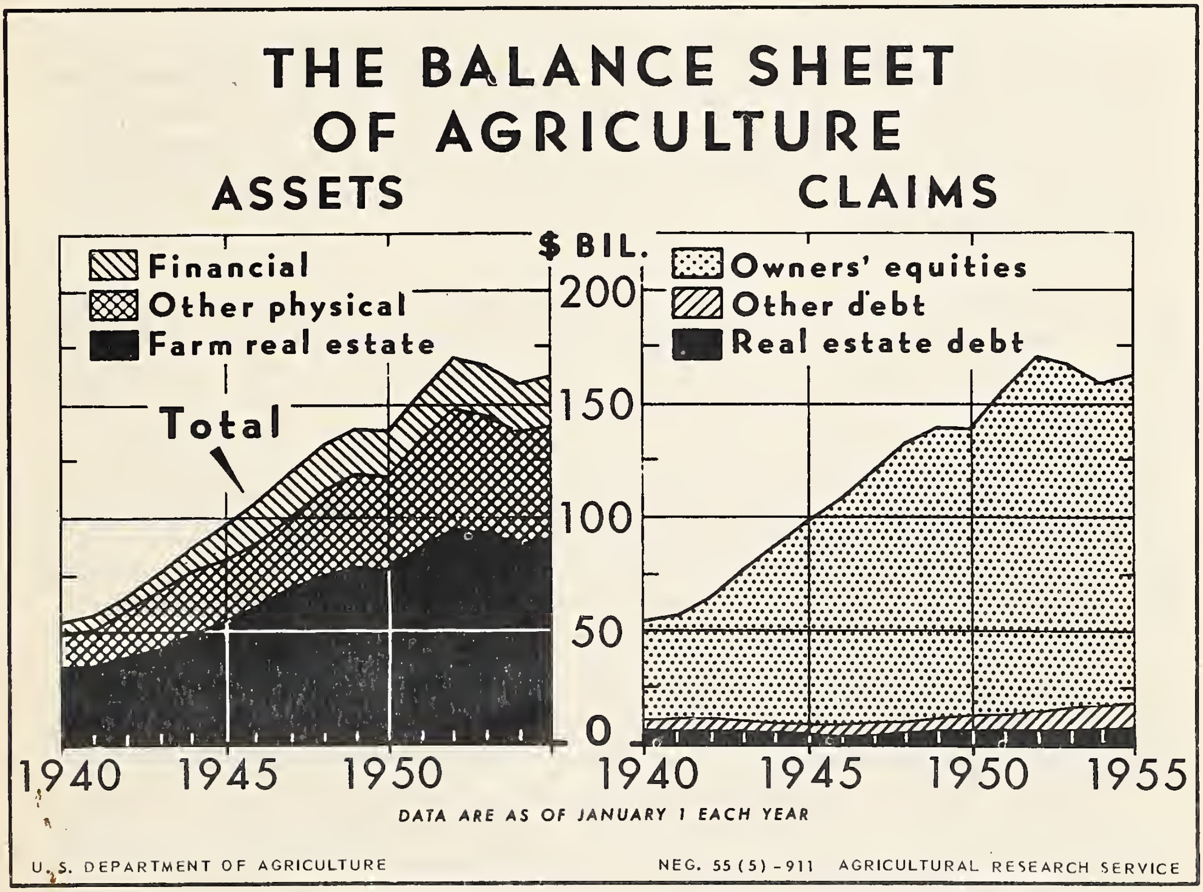

CONTENTS

In the preparation of this report regularly available data have been supplemented by: (1) Information and opinions obtained in October 1955 from the Farm Credit district offices, the Federal Reserve banks, several leading life insurance companies, and a few important farm banks; and (2) credit and financial information obtained in late October by personal interview with a small sample of farmers, merchants, bankers, and other lenders and creditors in 16 selected counties scattered throughout the United States.

1956 AGRICULTURAL FINANCE OUTLOOK

Approved by Outlook and Situation Board, November 23, 1955

SUMMARY OF FARM FINANCIAL OUTLOOK FOR 1956

The farm financial situation in 1955 reflects a paradox. Farm prices and farm income were lower than in 1954. Yet the total value of farm assets, and of owners' equities in these assets, increased. The explanation lies in the value of farm real estate which has continued to rise in 1955 despite lower farm income.

This unusual farm real estate situation apparently stemmed from: (1) The desire of farmers to enlarge their farms; (2) more liberal loan policies of some mortgage lenders; (3) generally favorable crop yields in 1955; (4) the favorable outlook for the economy at large; and (5) the expectation that the demand for farmland will be favorable in the long run, partly because of a continued high rate of population growth in the United States.

Despite the increase of ownership equities in agriculture during 1955, many farmers will enter 1956 with larger debts or less cash, or both, than they had a year earlier. To increase efficiency or enlarge operations during 1955, some farmers bought more land; some installed irrigation systems; many added to their machinery and livestock and used more fertilizer and insecticides. Some made large outlays to repair storm damage. These expenditures, at a time when farm receipts were lower, reduced the financial reserves or increased the debts of many farmers. In addition, some farmers were unable to adjust expenditures to the lower level of income because of the cost-price squeeze, or crop damage from drought or storms.

In the aggregate, liquid financial reserves of farmers were reduced little during 1955 but farm debts were increased considerably. Many farmers, particularly those whose liquid reserves consisted only of working funds, increased their debts to avoid depletion of these funds. But most of the expansion in farm debt resulted from increased expenditures for capital and operating purposes, including an increase in the number of cattle on feed.

Most farmers covered by the Outlook survey report that they are able to pay their obligations on schedule and that they have no difficulty in obtaining the credit they request. Lenders report that there has been some increase in delinquencies, but that delinquencies are low and most of their farm customers are in good financial condition.

The most favorable reports on the change in financial situation from 1954 to 1955 came from the Southern States. Excellent crop yields in these States apparently improved the financial circumstances of farmers considerably and enabled many farmers to reduce debts carried

over from earlier years. In contrast, crop yields in the western part of the Corn Belt were reduced drastically by drought, and the situation has been worsened by the low price of hogs. Dairy farmers are generally reported to be in as good, or somewhat better financial condition, than a year earlier. There has been little change in the situation of cattle feeders who sold their cattle early in the season, except in areas where drought reduced feed supplies for next year, but those who sold late received smaller returns than a year earlier. The change in the situation of wheat growers varies considerably, depending on the yields obtained in 1955.

For 1956, prospects are that the financial situation of farmers will not differ greatly from the situation in 1955. Some further decline in receipts from crops is expected but receipts from livestock and livestock products are likely to be as high as in 1955. Farm production expenses may be slightly lower. Farm-mortgage debt seems certain to rise again in 1956. A continued high volume of real estate loans used to refinance existing debts is expected. Non-real-estate debts of farmers are also expected to increase further but at a lower rate than in 1955. The liquid financial reserves of farmers may decline slightly.

Adequate credit is expected to be available to farmers in 1956 at interest rates near present levels. Some farmers, however, may be required to give more security for loans.

Farm Income Situation

This has been a less favorable year than 1954 for most farmers. The cost-price squeeze on farmers tightened in 1955. Between October 1954 and October 1955 the index of prices received declined from 242 to 230 or about 5 percent and the parity ratio dropped from 87 to 82.

In the first 9 months of 1955, net realized farm income on a seasonally adjusted basis was about 10 percent below the first 9 months of 1954. The total for the year is likely to be around $10.6 billion which compares with $11.8 billion in 1954 and the record high of $17.2 billion in 1947. Cash receipts from farm marketings in the first 9 months were 4 percent below the same period in 1954. For 1955 as a whole they are expected to be down about a billion dollars from the $30.2 billion reported for 1954. The change in cash receipts from marketings varied considerably by regions. In the Western and North Atlantic regions the total in the first 9 months of 1955 was about the same as in the corresponding period in 1954. A small increase occurred in the South Atlantic region. There was a decline of 6 percent in the West North Central region, and a drop of 7 percent in the East North Central region.

Total production expenses of farmers in 1955 will probably be slightly above 1954. Higher prices for many nonfarm items will probably offset reduced costs of feed. Interest on farm debt and farm real estate taxes was higher in 1955. However, income-tax payments were down because of the lower farm income in 1954.

The average realized net income per farm operator from farming has declined since 1951, when it was $2,682. The 1954 figure was $2,316. The 1955 net income may be about 10 percent lower. (These figures include net farm income of part-time farmers, many of whom received little income from their farms.) The purchasing power of the average net income of farm operators from farming in 1955 is likely to be around that of 1941.

The income situation in 1955 varies considerably by type of farm. Corn-hog producers are hard hit by the decline in prices of both hogs and corn. Cattle prices in October averaged about the same as a year earlier. However, feeding margins in the fall of 1955 were below those of a year earlier. Poultry and egg producers have benefited from lower feed costs and higher prices for poultry and eggs. Milk prices were largely stable in 1955, and in October the average price received for milk was about the same as a year earlier while feed prices were lower.

Cotton farmers will harvest a crop of 14.8 million standard bales, 8 percent more than in 1954. Production of flue-cured tobacco also increased and the 1955 crop will probably be about 15 percent above 1954 - more than offsetting a slight reduction in price. Production of wheat in 1955 was about 6 percent below 1954, and prices have also been lower. Production of corn in 1955 will be a little above 1954, and the total supply of feed grains and other concentrates is 9 percent above a year ago. Corn prices in October were $1.14 per bushel on the average and 31 cents below October of 1954.

Farm Income Outlook

Farm income in 1956 will probably be lower than in 1955. Receipts from sales of livestock and products are likely to be as high as in 1955, but a further reduction in income from crops is probable.

Production expenses in 1956 may be a little less than in 1955. Lower feed costs may more than offset the increased costs for most of the other items.

Prices of staple crops in 1956 will be affected both by the size of the 1956 crop and the large supplies carried over from 1955. The carryover of wheat next July may be more than a billion bushels - more than a normal year's domestic consumption and exports. The minimum price-support level for the 1956 crop of wheat has been announced at $1.81 per bushel; the support price in 1955 was $2.08. Because of the large 1955 crop, the carryover of cotton next July will probably be substantially above the 1954 carryover and it may be about 14 million bales. The price support for the 1956 cotton crop has not yet been announced. The announced cotton acreage allotment for 1956 is about 4 percent under the 1955 allotment. Receipts from corn will probably also be lower in 1956, as prices will be affected in the first 8 or 9 months of the year by the large 1955 crop. Corn allotments for 1956 have not yet been announced. Flue-cured tobacco farmers will probably have some reduction in income because of an announced reduction of 12 percent in acreage allotments for 1956.

The outlook for livestock, and livestock products in general is relatively favorable and receipts may be as high or a little higher than in 1955. The present low prices for hogs may halt the up-trend in production in 1956. Prices of cattle may begin a gradual cyclical recovery in 1956, and prices of sheep and lambs also may average as high in 1956 as in 1955. Production of milk is likely to increase in 1956, and with prices close to support levels some increase in income should result. Egg prices have been higher this fall, and because of this more pullets may be started in 1956 with higher production later in the year. Prices generally in 1956 are likely to average somewhat below 1955. Some increase in production of farm chickens, broilers, and turkeys is likely in 1956.

On the whole, the outlook in 1956 is for continuation of the current cost-price squeeze and for some further reduction in net farm income. Farmers will be under pressure to enlarge their farming operations so as to maintain their incomes. This may encourage an expansion of debt incurred for purchase of farm real estate, machinery, and equipment. Small farmers, in particular, will continue to be in an unfavorable position unless they can expand operations.

Financial Condition

It appears that the total value of farm assets will be about $4.4 billion greater on January 1, 1956, than a year earlier (table 1). This expectation is based on the continued strong market for farm real estate. Farm real estate values rose about 3 percent during the first half of 1955 and current reports indicate a further increase of about the same percentage for the latter half of the year.

Other farm assets, in the aggregate, have declined in value during 1955. Small increases in value are indicated for farm machinery and motor vehicles, for household furnishings and equipment, and for farmers' investments in United States savings bonds and cooperative associations. But these increases will be more than offset by declines in the value of crop and livestock inventories and by a reduction in the currency and bank deposits owned by farmers.

Because of the further increase in farm real estate values, ownership equities in agriculture are expected to be about $3.6 billion higher on January 1, 1956, than a year earlier. Farm debts, including CCC loans, will show an increase of about $0.8 billion during 1955. But the increase in debt will not be nearly as great as the increase in asset value.

Notwithstanding the indicated rise in ownership equities, lower income from agriculture, which has been accentuated in many instances by acreage allotments, drought, and storm damage has put many farmers under considerable strain, particularly with respect to their cash and debt positions. To increase efficiency, some farmers have bought more land and many have added to their machinery, equipment, and livestock, and used more fertilizers and insecticides. Some have had to make large capital outlays

Table 1.- Balance sheet of agriculture, January 1, 1955, and estimated for January 1, 1956

Item	January 1, 1955	Estimated for January 1, 1956	Percentage change
	Billion dollars	Billion dollars	Percent
ASSETS			
Physical assets:			
Real estate	1/ 91.4	97.0	+6.1
Non-real-estate	49.8	48.6	-2.4
Financial assets	22.0	22.0	0
Total	1/ 163.2	167.6	+2.7
CLAIMS			
Liabilities:			
Real estate debt	8.2	9.0	+9.8
Non-real-estate debt:			
Loans held and guaranteed by Commodity Credit Corporation	2.5	1.9	-24.0
Other	7.3	7.9	+8.2
Total liabilities	18.0	18.8	+4.4
Equities	1/145.2	148.8	+2.5

1/ Revised.

to repair damage from storms. Investments such as these, at a time when income was lower, have reduced the financial reserves and increased the debts of many farmers. At the same time, some farmers, who previously had operated on a cash basis, have found it necessary to use credit in their operations.

Reports from farmers and lending agencies, obtained in preparation for the Outlook Conference, indicate little change in the financial condition of farmers during 1955 but suggest that such change as occurred was on the downward side. Nearly half the reporting farmers stated that their debts and overall financial condition in October were about the same as a year earlier, and more than half reported that their liquid assets were not significantly different. However, of the remaining

farmers, a majority reported that their financial condition was weaker. Lending agencies on the whole appeared to feel that the financial condition of farmers was somewhat weaker than a year earlier, but they emphasized that their farm customers generally were in good financial condition and that they had few collection problems. In making these reports, apparently neither farmers nor lending agencies recognized any significant change in farm real estate values. Their views appear to have been governed chiefly by changes in value of crop and livestock inventories, factors affecting farm income, and changes in the debts and liquid assets of farmers.

Conditions in 1955, compared with 1954, appear to have improved most in the Southern States. Reports from this region indicate considerable improvement in the financial condition of farmers resulting from excellent crops. In most other areas surveyed, the financial condition of farmers was reported to be less favorable than a year earlier. Some of the least favorable reports came from counties surveyed in the North Central region where sharply lower hog prices, and crop yields reduced by drought, had depressing effects on livestock inventories and income prospects.

Farm Real Estate

The total value of farm real estate (land and buildings) will probably reach about $97 billion by March 1, 1956. This would be $5.6 billion, or about 6 percent above a year earlier. Values rose about $2.3 billion, or 3 percent in the year ended March 1955. These increases have more than offset the declines that occurred earlier, so that the value estimated for next March would be above the previous all-time peak that occurred in March 1952.

The average value of farm real estate per acre increased 3 percent in the 4 months ended July 1, 1955. Increases were general throughout the country, with values up 2 percent or more in three-fourths of the States. These increases raised the national average to the same peak level that had occurred in March and July 1952. Average values as of July 1, 1955, were 5 percent above a year earlier, and new record peaks were reached in 17 States. Indications are that values have continued to rise since July at a rate nearly as high as for the March-July period.

The strength shown in prices of, and demand for, farm real estate during the last 18 months has been unusual in view of the downward trend in farm commodity prices and farm income. Based on past relationships, one might have expected farm real estate values to decline during 1955. Apparently several other factors, the exact nature and relative importance of which are difficult to evaluate, prevented such a movement. However, local observers make frequent reference to the following factors: (1) The desire of farmers to enlarge existing farms in order to utilize mechanization more fully as a means of reducing costs per unit of output; (2) more liberal lending policies adopted by several major classes of lenders in 1954. Higher appraisals for loan purposes and increased dollar

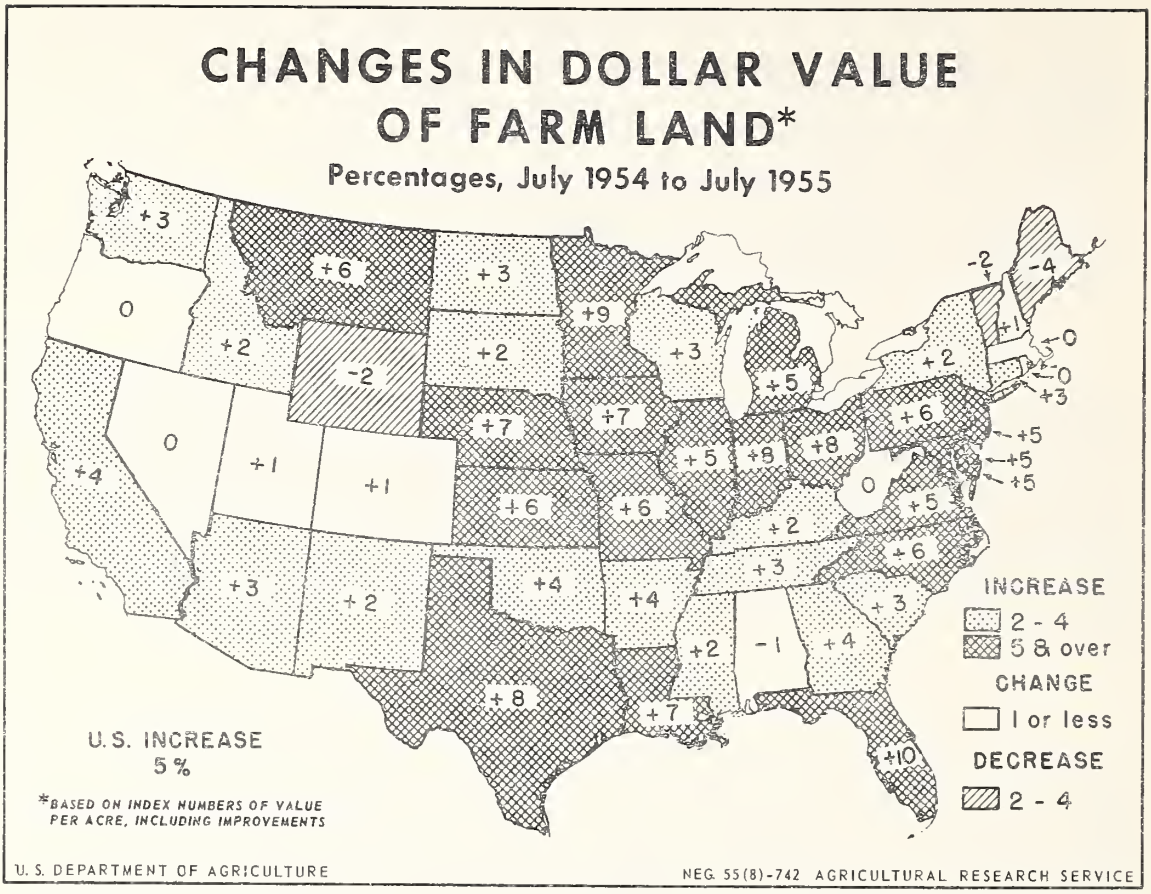

FIGURE 1

loan limits have enabled some prospective buyers to buy land that could not have been financed under terms available previously; (3) the generally favorable crop outturns which have partly offset lower commodity prices; (4) the buoyancy in, and favorable outlook for, the general economy has contributed to optimism regarding the desirability of land as an investment; and (5) prospect of a continued high rate of population growth also strengthens the expectation that the long-term demand for farmland will be favorable.

The amount and frequency of debt incurred to finance farm purchases continued to creep upward during the winter and spring of 1954-55. Nationally, about 64 percent of all farm purchases were financed with some form of credit during 1954-55, compared with 62 percent a year earlier. The average debt of 59 percent of the purchase price was about the same as a year earlier, but the proportion of all purchases with debts of 75 percent or more increased slightly. Average dollar debt per acre increased in most areas.

The rate of voluntary sales during the year ended March 1, 1955, was 7 percent above the previous year, but still only about half that of the record rate in 1946-47. The rate of farm foreclosures increased slightly, but it was still below that for any year prior to 1944.

Farm Debts

Farm debts on January 1, 1956 (excluding CCC loans) are expected to be about 9 percent above the beginning of 1955. The total amount is expected to approximate $16.9 billion by the end of 1955. Farm debt will probably increase in 1956 at about the same rate as in 1955.

The cost-price squeeze has been a major factor in the increase in farm debt in 1955. Continued high - and in some cases increasing - costs and lower prices have induced many farmers to expand operations in an attempt to offset declining incomes. An increasing number of farmers are buying additional land at increasing prices in order to make more efficient use of available capital and labor. Labor shortages and high labor costs have induced many operators to substitute machinery for labor. Many farmers have also increased fertilizer inputs in an attempt to increase yields and reduce unit costs. A sharp increase in feeder cattle loans has also been a major factor in the debt increase.

Extension and refinancing of debts that have been carried over have increased somewhat. Many farmers who are normally able to meet current obligations have found it necessary to refinance and consolidate debts into longer term obligations or to carry over their obligations.

On an industry-wide basis the farm debt situation in agriculture is generally considered to be sound. However, some of the younger farmers who have not had time to accumulate much equity in their farms, and heavily indebted farmers who are inefficient or are operating small units are in a vulnerable debt position - particularly in areas affected by drought and sharp price declines.

Non-Real-Estate Credit.- Non-real-estate debt (excluding CCC loans) owed by farmers is increasing in 1955 at a higher rate than in 1954. By the end of the year the amount of this type of debt may reach $7.9 billion. This is about 8 percent above the amount outstanding at the beginning of 1955. Some further increase in the amount of non-real-estate credit used by farmers is expected for 1956.

Interest rates on non-real-estate loans have been fairly stable in 1955 and are expected to be steady to slightly higher in 1956. Some farmers may find the cost of borrowed money a little higher and they may be required to give more security than in 1955.

Although lenders are screening loan applications more closely, and, in many cases, are requiring additional security, apparently the supply of non-real-estate credit has been adequate in most areas. In fact, many lenders are willing to expand their volume of loans, particularly in the more stable farming areas. However, the value of security some farmers

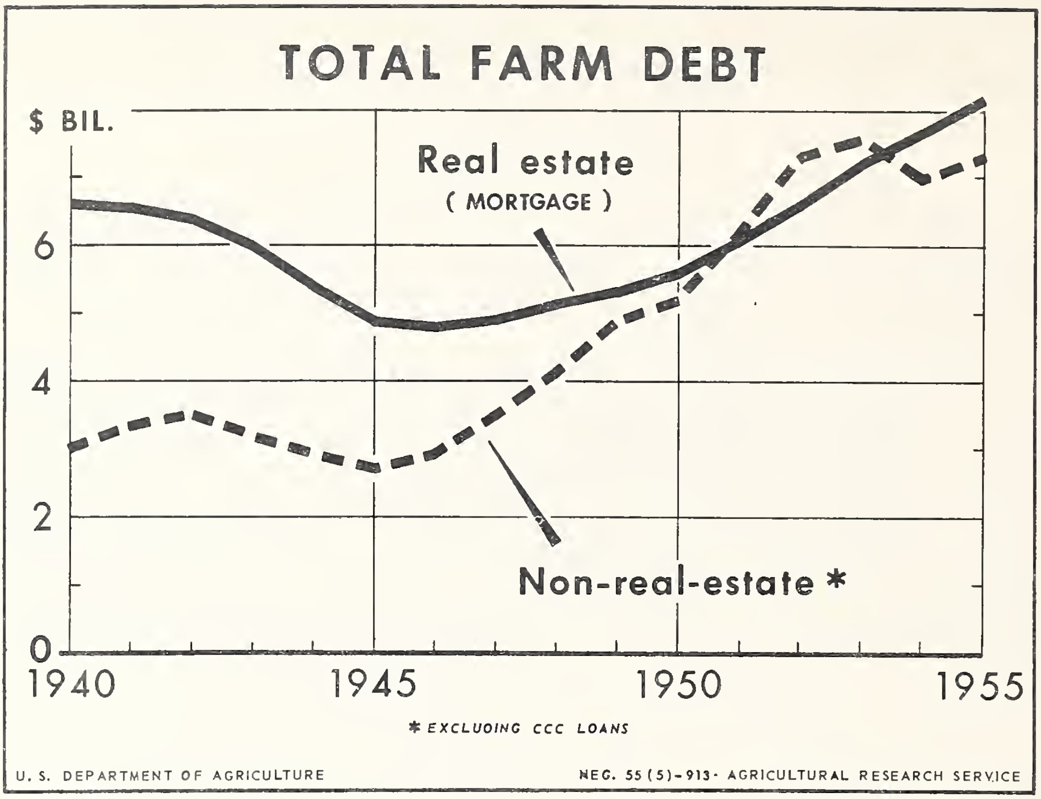

FIGURE 2

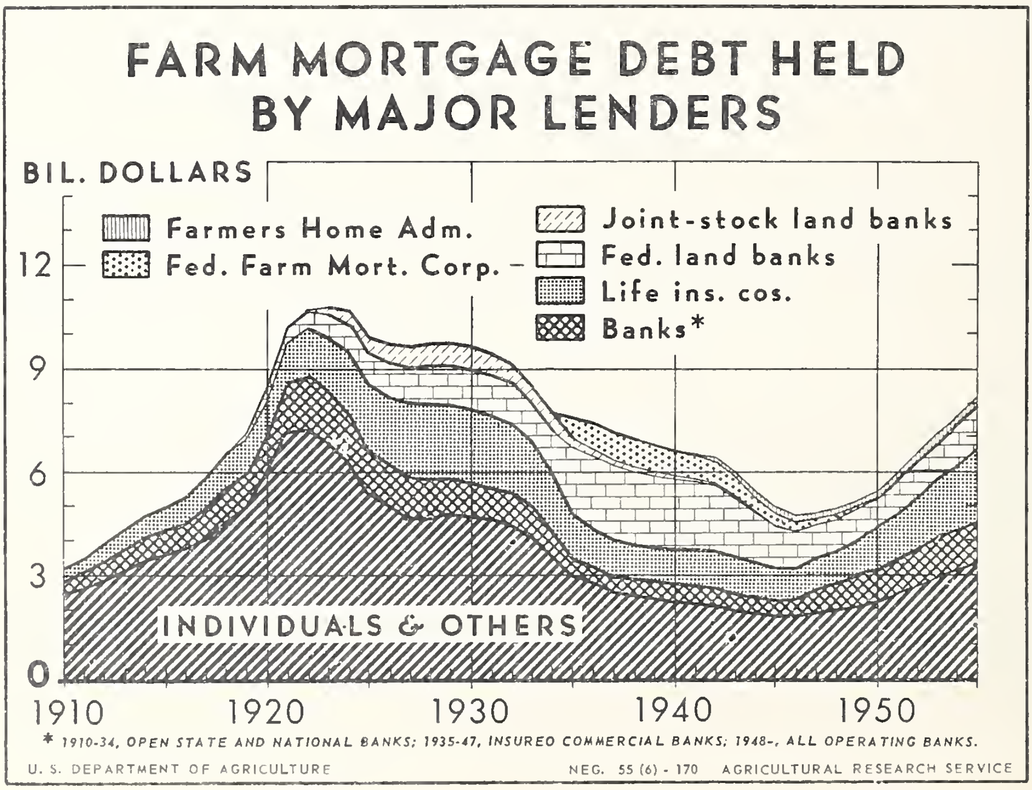

FIGURE 3

have to offer has declined to a point at which adequate loans from conventional lenders are unobtainable. In many of these cases, the operator has been referred to Farmers Home Administration. Some increase in these referrals may be expected in the coming year, particularly in areas that have been hard hit by drought.

Delinquencies, extensions, and carryovers on non-real-estate farm loans appear to be up somewhat from a year ago, particularly in drought areas and areas that have experienced severe price declines, but generally are reported to be low. Few cases of forced liquidation have been reported but some operators have found it necessary to refinance non-real-estate obligations into longer term real estate mortgages.

The principal institutional lenders - banks and federally sponsored agencies - have shared in extending more non-real-estate credit to farmers in 1955. On June 30, 1955, the amount of non-real-estate loans (excluding CCC) held by banks was nearly 9 percent above June 30, 1954. On October 5, 1955, non-real-estate loans held by member banks of the Federal Reserve System were about 12 percent higher than a year earlier. Production credit association loans outstanding in mid-1955 were nearly 9 percent above June 30, 1954. At the end of the third quarter of 1955, PCA loans were nearly 12 percent above September 30, 1954. Increases for both banks and PCA's were generally greatest in areas where cattle feeding is important, notably the North Central and West. Operating loans held by the Farmers Home Administration on June 30, 1955, were 5 percent above a year earlier (tables 2 and 3).

Reports from merchants and dealers indicate that demand for credit by farmers has increased somewhat from a year ago and that collections are somewhat poorer. Some dealers reported that although their collections in 1955 were about as good as a year ago, more effort was required to obtain payments.

The higher rate of increase in non-real-estate debt in 1955 may be attributed to a number of factors. A major factor has been the increase in feeder cattle loans. The cost-price squeeze has induced many farm operators to expand operations in order to utilize more efficiently their labor and machinery and to keep incomes up. In addition, it has forced many farmers to incur or increase debts in order to meet current operating expenses.

Farm-Mortgage Credit.- Indications are that farm-mortgage debt is increasing in 1955 at a somewhat higher rate than in 1954. Moreover, this higher rate of increase is expected to continue in 1956.

Interest rates on farm-mortgage loans are somewhat firmer than a year ago, and are expected to edge up slightly in 1956. Some upward adjustments may take place, particularly with respect to some of the less desirable loans and in the higher risk areas.

Farm-mortgage money has been in good supply in 1955 and generally adequate funds are expected to be available in 1956. Competition between

Table 2.- Non-real-estate loans to farmers held by selected lending agencies, on June 30, 1955, and percentage change from year earlier, by regions 1/

Region	All operating banks	Production credit associations	Private financing institutions 2/	Farmers Home Administration	Total	Percentage change June 30, 1954, to June 30, 1955: Banks	Production credit associations	Private financing institutions	Farmers Home Administration	Total
	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	1,000 dollars	Percent	Percent	Percent	Percent	Percent
New England	43,926	15,330	925	9,689	69,870	3.4	4.7	-13.8	12.2	4.5
Middle Atlantic	167,126	47,045	178	20,560	234,909	5.2	6.2	-2.7	12.1	6.0
East North Central	561,970	134,218	6,264	41,672	744,124	14.3	16.5	5.3	9.4	14.3
West North Central	1,099,396	116,225	6,130	98,506	1,320,257	15.5	21.5	15.1	3.9	15.1
South Atlantic	231,054	113,156	921	60,609	405,740	5.0	2.5	-7.5	6.6	4.5
East South Central	218,809	73,096	8,220	41,960	342,085	3.0	4.9	-9.3	.3	2.7
West South Central	484,997	139,475	23,273	135,321	783,066	3.1	1.2	1.5	2.9	2.7
Mountain	337,096	92,404	18,695	74,831	523,026	9.5	8.9	21.3	1.9	8.6
Pacific	361,962	63,928	7,852	25,066	458,808	4.5	10.2	14.9	-2.5	5.0
United States	3,506,336	794,877	72,458	508,214	4,881,885	9.5	8.8	6.9	3.9	8.7

1/ Excludes loans guaranteed by Commodity Credit Corporation.
2/ Discounts at Federal intermediate credit banks.

Table 3.- Real estate and non-real-estate farm loans held by member banks on October 5, 1955, and percentage change from October 7, 1954

Federal Reserve district	Amount outstanding October 5, 1955 1/		Percentage change from October 7, 1954	
	Other (non-real-estate)	Farm real estate	Other (non-real-estate)	Farm real estate
	1,000 dollars	1,000 dollars	Percent	Percent
Boston	31,066	17,652	0.6	7.6
New York	84,781	45,253	2.7	12.0
Philadelphia	58,403	48,469	7.8	6.0
Cleveland	81,968	90,499	6.3	8.7
Richmond	72,889	61,747	12.1	14.4
Atlanta	82,508	44,176	5.4	35.0
Chicago	313,903	109,081	18.2	10.2
St. Louis	137,748	51,355	10.4	16.2
Minneapolis	170,839	25,569	14.3	7.9
Kansas City	399,888	44,285	14.3	17.6
Dallas	267,751	35,450	8.7	13.6
San Francisco	450,561	121,064	10.8	10.4
Total	2,152,305	694,600	11.5	12.4

1/ Preliminary.

Board of Governors of the Federal Reserve System.

lenders appears to be somewhat keener in 1955 than a year ago and this highly competitive situation is likely to continue in 1956. Even so, lenders will continue to screen applications closely and will be alert to danger signals - particularly in areas that have experienced severe drought, severe price declines, and other adverse conditions.

Delinquencies on farm-mortgage loans have not been serious except possibly in some local areas. Although above the 1954 rate, foreclosures in 1955 have been very low and repayments have continued at relatively high rates. However, more farmers in 1956 may find it difficult to meet scheduled mortgage payments unless farm income improves substantially.

Farm-mortgage debt is expected to total about $9.0 billion on January 1, 1956. This is about 10 percent above a year earlier and 90 percent above the beginning of 1946 (table 4). All classes of lenders appear to be sharing in the increase. Increases are expected to be generally higher in the South and West than in other areas.

Table 4.- Farm-mortgage debt: Total outstanding and percentages held by major lenders, by principal regions, January 1, 1946 and 1950-55

Region	Total farm-mortgage debt	Distribution by lender						
		Federal land banks	Federal Farm Mortgage Corporation	Joint-stock land banks	Farmers Home Administration	Life insurance companies	Banks 1/	Individuals and others
	1,000 dollars	Percent	Percent	Percent	Percent	Percent	Percent	Percent
United States:								
1946	4,760,464	22.7	5.0	0.1	3.8	18.7	10.7	39.0
1950	5,579,278	16.2	1.1	2/	3.4	21.0	16.8	41.5
1951	6,071,345	15.6	.7	---	3.5	22.4	16.6	41.2
1952	6,588,270	15.1	.5	---	3.5	23.4	15.9	41.6
1953	7,154,038	15.0	.3	---	3.6	24.0	15.4	41.7
1954 3/	7,656,186	15.3	.2	---	3.5	24.7	14.8	41.5
1955	8,175,724	15.5	.2	---	3.3	25.1	14.8	41.1
Northeast:								
1946	403,808	17.1	5.8	---	1.4	.7	13.0	62.0
1950	515,100	13.2	1.2	---	2.0	4.3	24.7	54.6
1951	539,134	12.8	.9	---	2.1	5.0	25.2	54.0
1952	573,756	12.3	.6	---	2.1	5.6	24.9	54.5
1953	618,742	12.0	.4	---	2.1	5.9	24.9	54.7
1954 3/	661,461	12.0	.3	---	1.9	6.0	24.4	55.4
1955	708,625	12.1	.2	---	1.8	5.9	24.1	55.9
North Central:								
1946	2,435,290	23.9	4.2	.1	2.1	26.6	9.9	33.2
1950	2,471,014	17.1	1.0	2/	1.9	26.0	16.5	37.5
1951	2,647,950	16.8	.7	---	2.0	27.2	16.9	36.4
1952	2,819,679	16.4	.5	---	2.2	28.4	16.4	36.1
1953	2,981,414	16.8	.3	---	2.3	28.8	16.0	35.8
1954 3/	3,106,461	17.6	.2	---	2.2	29.3	15.6	35.1
1955	3,260,762	17.9	.2	---	2.2	29.5	15.9	34.3
South:								
1946	1,174,211	23.9	6.1	2/	9.6	15.3	12.0	33.1
1950	1,470,261	17.9	1.2	---	7.7	22.3	18.9	32.0
1951	1,644,845	16.8	.8	---	7.6	23.4	17.8	33.6
1952	1,814,082	16.1	.5	---	7.3	24.1	16.8	35.2
1953	2,025,180	15.6	.3	---	7.1	25.4	16.2	35.4
1954 3/	2,202,934	15.7	.2	---	6.7	26.7	15.6	35.1
1955	2,384,016	15.7	.1	---	6.2	27.3	15.7	35.0
West:								
1946	747,155	19.8	5.7	2/	1.5	8.1	9.8	55.1
1950	1,122,903	13.5	1.0	---	1.6	16.1	11.2	56.6
1951	1,239,416	12.9	.7	---	1.9	17.9	10.5	56.1
1952	1,380,753	12.1	.5	---	2.1	19.6	9.8	55.9
1953	1,528,702	11.8	.3	---	2.2	20.1	9.4	56.2
1954 3/	1,685,330	11.9	.2	---	2.2	21.0	8.5	56.2
1955	1,822,321	12.1	.1	---	2.2	21.8	8.2	55.6

1/ 1946 insured commercial banks; 1950 to date, all operating banks.
2/ Less than 0.05 percent.
3/ Revised.

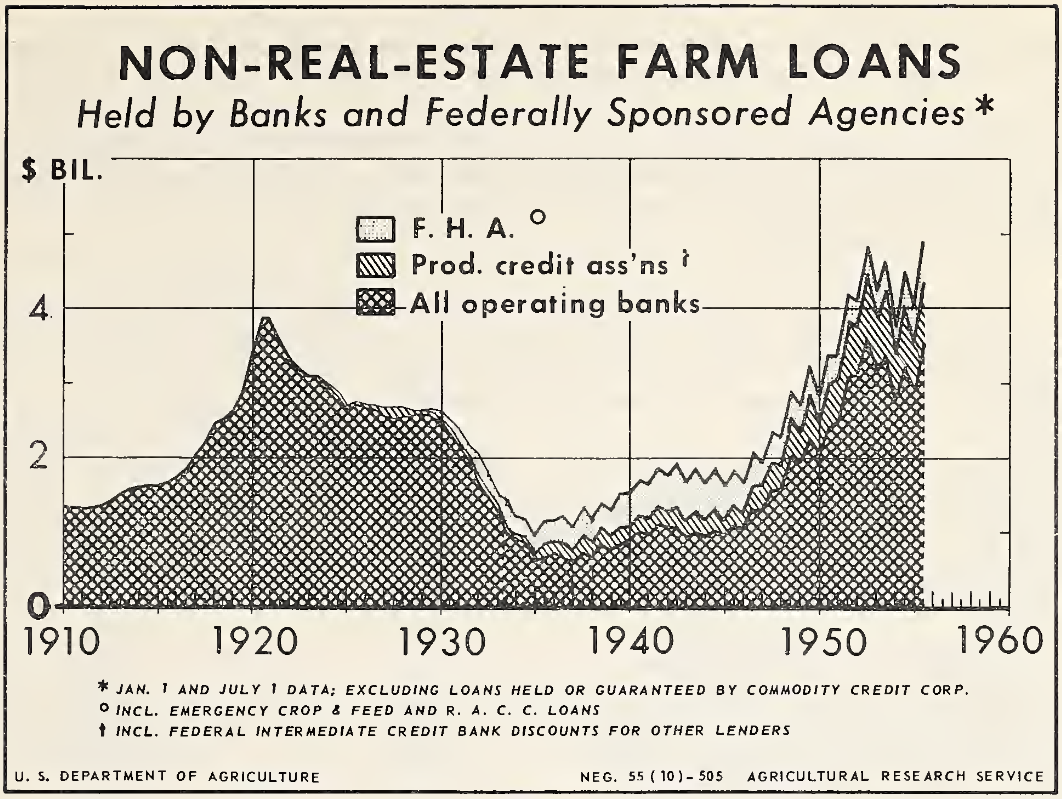

FIGURE 4

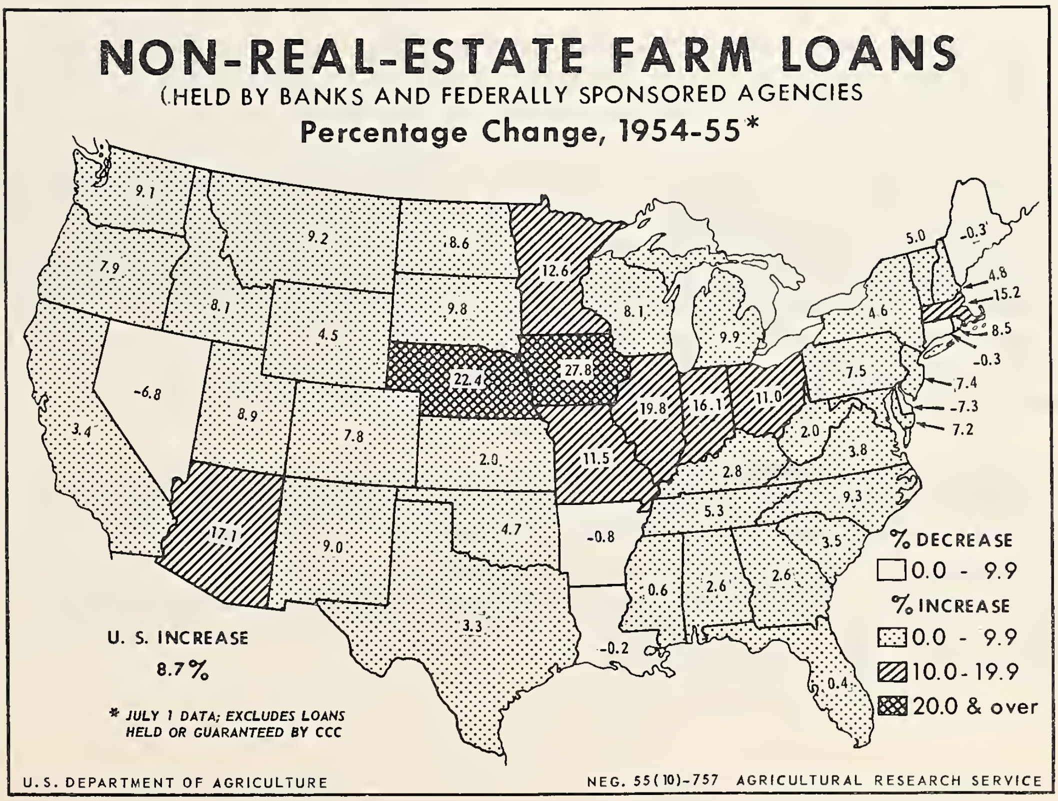

FIGURE 5

On September 30, 1955, the outstanding principal of farm-mortgage loans held by 16 major life insurance companies was 11 percent above the same date in 1954. The number of loans held by these companies on September 30, 1955, was 5 percent above a year earlier and the average size of loan was up 6 percent. Farm-mortgage commitments of these 16 companies in the first three quarters of 1955 were $389 million compared with $296 million in the same period in 1954. This is an increase of 31 percent.

The amount of Federal land bank loans outstanding on September 30, 1955, was 15 percent above a year earlier. The number of loans outstanding on September 30, 1955, was 8 percent higher than a year earlier and the average size of loan increased 6 percent.

Farm real estate loans held by member banks of the Federal Reserve System on October 5, 1955, were 12 percent above a year earlier. The amount of direct farm-ownership loans held by the Farmers Home Administration at the end of the third quarter of 1955 was about 1 percent above the same date in 1954.

Farm-mortgage recordings in the first half of 1955 were up sharply from the first half of 1954; the dollar amount recorded was up 29 percent. Increases ranged from 20 to 52 percent in all regions except the Middle Atlantic and Mountain States where the amount was up 5 percent. The percentage increase for the Federal land banks was 60 percent while recordings by life insurance companies increased 34 percent. Recordings for commercial banks in the first half of 1955 were 22 percent above a year earlier; increases for individuals and for miscellaneous other lenders were 18 and 17 percent, respectively (table 5).

Several factors contributed to the higher rate of increase in farm-mortgage debt in 1955. The cost-price squeeze continues to be a major factor. There appears to be an increasing tendency on the part of farmers - and to some extent insistence on the part of lenders and merchants and dealers - to secure loans for capital purposes with farm real estate mortgages. Some lenders require an increasing number of farmers to pledge real estate as additional security for production loans. Farm real estate loans used to refinance and increase existing debts - both real estate and non-real-estate - are also a major factor in the rise. Also many farmers have bought additional land in an attempt to offset declining farm income. A high proportion of these purchases have been financed with mortgage credit.

Data for 10 major life insurance companies also indicate a substantial proportion of loan proceeds are used for refinancing purposes. In the first 3 quarters of 1955 about 35 percent of loan proceeds were for refinancing real estate mortgages - about the same as in the same period a year earlier. The proportion for refinancing other indebtedness declined from 19 to 14 percent and the proportion for real estate purchase increased from 29 to 31 percent.

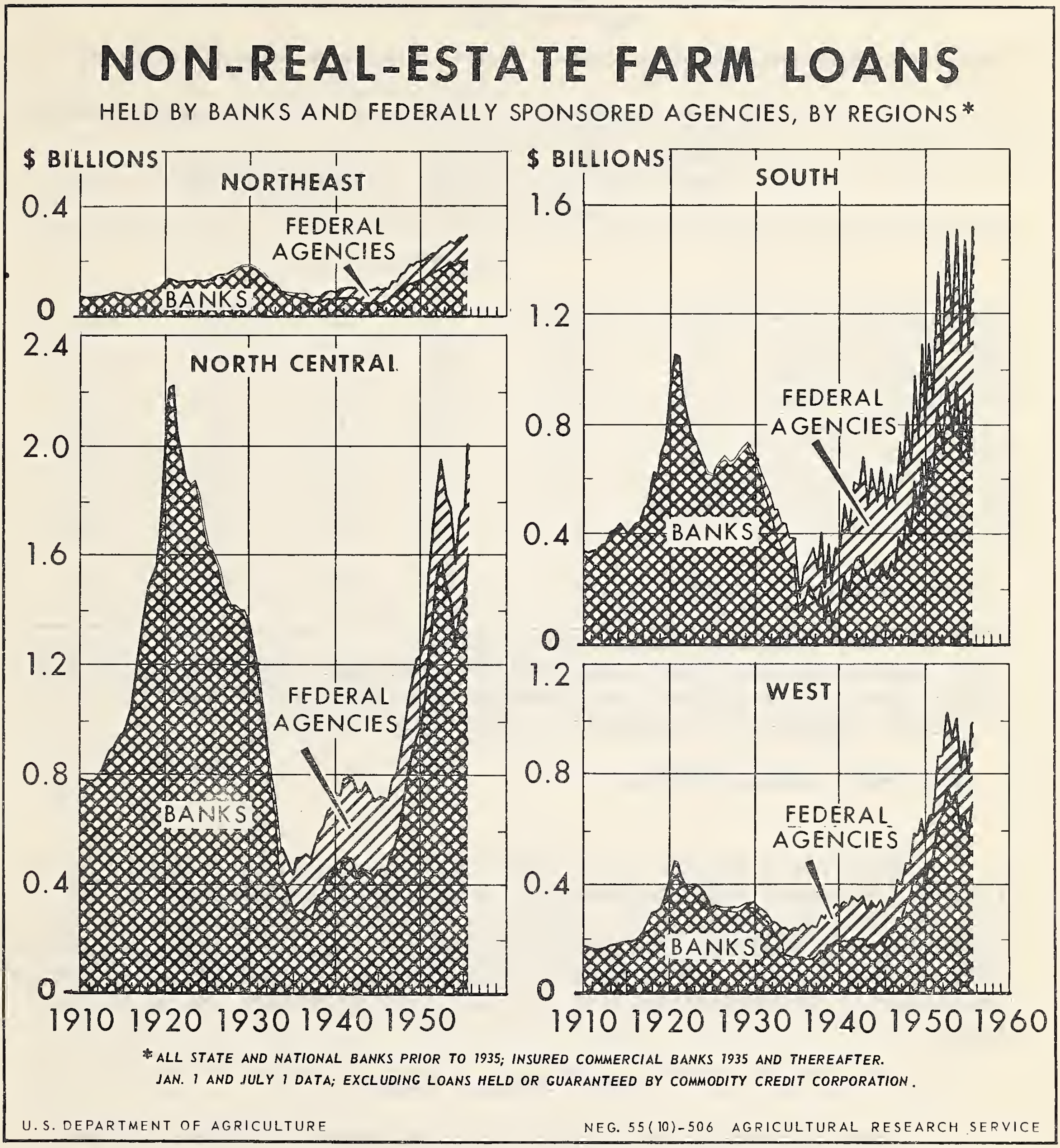
NON-REAL-ESTATE FARM LOANS
HELD BY BANKS AND FEDERALLY SPONSORED AGENCIES, BY REGIONS*
$ BILLIONS
NORTHEAST
0.4
0
FEDERAL AGENCIES
BANKS
2.4
NORTH CENTRAL
2.0
1.6
1.2
0.8
0.4
0
FEDERAL AGENCIES
BANKS
1910 1920 1930 1940 1950
$ BILLIONS
SOUTH
1.6
1.2
0.8
0.4
0
FEDERAL AGENCIES
BANKS
1.2
WEST
0.8
0.4
0
FEDERAL AGENCIES
BANKS
1910 1920 1930 1940 1950 1960
* ALL STATE AND NATIONAL BANKS PRIOR TO 1935; INSURED COMMERCIAL BANKS 1935 AND THEREAFTER.
JAN. 1 AND JULY 1 DATA; EXCLUDING LOANS HELD OR GUARANTEED BY COMMODITY CREDIT CORPORATION.
U.S. DEPARTMENT OF AGRICULTURE
NEG. 55(10)-506 AGRICULTURAL RESEARCH SERVICE

FIGURE 6

Table 5.- Amount of farm mortgages recorded - percentage change first half of 1955 from first half of 1954, by region and type of lender

Region	Type of lender					
	Federal land banks 1/	Commercial and savings banks	Insurance companies	Individuals	Miscellaneous 2/	Total
	PERCENTAGE CHANGE					
New England	27	23	3/	25	-21	26
Middle Atlantic	26	10	23	-9	-8	5
East North Central	62	23	44	8	38	32
West North Central	65	19	66	18	19	42
South Atlantic	44	22	6	15	20	20
East South Central	59	13	19	4	16	20
West South Central	97	30	18	10	11	28
Mountain	44	4	-9	12	-18	5
Pacific	44	58	26	58	63	52
United States	60	22	34	18	17	29

1/ Includes Land Bank Commissioner loans.
2/ Includes Farmers Home Administration, mortgage companies, State and county agencies, and other miscellaneous lending organizations.
3/ Data inadequate for estimate of percentage change.

Farm Credit Administration.

Data from a sample of the last 100 loans closed by each of the 12 Federal land banks prior to June 15, 1955, show that 50 percent of the loan proceeds were used to refinance real estate debt compared with 48 percent a year earlier. The proportion used to refinance other debts was below a year ago but the proportion used for land and building improvements was higher. The proportion used for real estate purchase was about the same.

Farm Financial Assets

Some decrease in the liquid financial assets of farmers is expected for the year 1955. The forecast for January 1, 1956, is $18.8 billion as compared with $19.0 for January 1, 1955. All of this decrease is expected to occur in currency and demand deposits. Time and savings deposits will show little change and holdings of United States savings bonds will increase slightly from $5.4 billion to $5.5 billion. The increase in bonds, however, will be due to accrual of interest; bonds cashed are about equal to bonds purchased. The increase in the value of

equities in farm cooperatives is expected to about offset the net decrease in the more liquid financial assets of farmers. Thus, the total financial assets of the farm balance sheet will show no change during 1955 (table 1).

Lower incomes and heavy costs have been the main reasons for the decline in the amount of cash and bank deposits owned by farm people. Some have used savings to buy machinery and make other capital investments needed to enlarge or make farming operations more efficient. It is believe, however, that less favorable farm income has caused farmers to limit expenditures in an attempt to conserve their financial assets. In many instances, farmers increased their holdings of cash, deposits, and savings bonds.

Of the small sample of farmers recently surveyed in 16 counties scattered throughout the country, about 57 percent reported that their liquid assets were about the same as a year earlier. Twenty-eight percent of these farmers reported decreases and 15 percent reported increases from a year earlier. The South was the only region in which more farmers reported increases than decreases. This reflects the generally good crop and livestock production in 1955 in that region which for several previous years had suffered from drought. Notwithstanding the improved financial condition of farmers in the South many still have few or no liquid assets.

The financial assets accumulated during the war and postwar years have proved valuable to many farmers in making improvements and in coping with declining incomes. These savings, however, are largely held by relatively few farmers, often those having well established farms that are free of debt. New or inexperienced farmers, those on small or inefficient units, and those with small equities often have been unable to build up any significant amount of financial assets. They are the ones most in need of reserves and are probably under the greatest financial pressure at present.

Farm Taxes

The year 1956 is expected to be the 15th consecutive year in which taxes paid on farm property have increased. These taxes, most of which were levied during the calendar year 1955, are expected to be about 5 percent higher than they were a year earlier. Most of the increase will be on real estate, which bears about four-fifths of the farm property tax load. For the country as a whole, real estate taxes are expected to be up by slightly more than 5 percent. A slightly smaller increase is anticipated in taxes on farm personal property, such as automobiles, farm machinery, and livestock.

A continued decline is expected in Federal income taxes payable by farm people in 1956. These taxes are based on income received during the preceding year. With Federal income tax rates unchanged, the magnitude of the drop will depend on the reduction in farm income. As computed for tax purposes, the 1955 income of farm people from all sources is expected to be off about 5 percent. Because of the graduated rate structure, a drop of this proportion in income will result in a decline of about 7 percent in income taxes. This decline will be partly offset by self-employment taxes of farmers for social security.

Insurance

The insurance carried by farmers' mutual fire insurance companies (about a third of which also offer wind insurance) has increased steadily in recent years - 7 percent in 1953 and 6 percent in 1954. Whether or not insurable farm property values rise in 1956, farmers who renew their policies during the year will tend to increase their insurance because of the prevalence of underinsurance. Therefore, the expenditures of farmers for property insurance in 1956 probably will be higher than in either 1955 or 1954.

Mainly because of drought, indemnities paid to farmers during 1955 by the Federal Crop Insurance Corporation are expected to exceed premium collections. In recent years, there has been very little expansion in the number of counties in which Federal crop insurance has been offered. Most of the experimentation since 1948 has been with various insurance plans and in the administration of the program. During 1955, some plan of insurance was in effect in 794 counties. In response to demand, during 1956 a plan will be tried in several counties whereby a farmer may select the crops to be insured under one contract. However, there will be separate settlements for each crop. Under the old multiple-crop policy, the coverage for several crops is combined and an indemnity is not payable unless the combined production falls short of the combined coverage. Drought has been the cause of about 40 percent of the losses paid under Federal crop insurance. During 1956, about 60 private insurance companies plan to offer a multiple-peril policy, which will cover damage by drought as well as hail, insects, and plant disease. It will be offered only in selected areas.

The amount of crop-hail insurance carried by farmers has increased tremendously in recent years. Damage to growing crops by hail was about average during the year; but because of the volume of insurance carried by farmers against this hazard, total cost and the amount of indemnities paid to them will be higher than in most other recent years. The amount of this insurance may be higher in 1956 than it was in 1955. Except for sales by three State hail departments (North Dakota, Montana and Colorado), crop-hail insurance is sold by private insurance companies.

Regional Situation and Outlook

Northeast 1/

Most farmers in the Northeast are believed to be in good financial condition. Dairy and poultry farmers, who make up the bulk of the farmers in that region, are faced with high labor and machinery costs but prices have been comparatively favorable recently and costs of feed are down somewhat. Debt repayments are at about the rate of last year with delinquencies

1/ Includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania. No counties in this region were included in the Outlook survey.

relatively low. Potato growers, especially in Aroostook County, Maine, are in a serious financial situation because of several years of low prices. Heavy delinquencies and carryovers are expected unless potato prices improve substantially. Some poultry producers who have not recovered from unfavorable egg prices of last year are also in a vulnerable financial position. Drought reduced production during 1955 in parts of Pennsylvania; and in sections of New Jersey and New York, drought in July and floods in August caused heavy losses to vegetable growers. These areas of difficulty are small, on the whole, and very few foreclosures and forced liquidations have as yet been reported. However, some farmers - such as those with small equities, inefficient or small units, and those who lack experience - are being forced out of farming because of lower farm profits, or are finding industrial opportunities more attractive.

The 1956 outlook in the Northeast is for a relatively stable financial condition for most farmers with the continued use of a large volume of credit, especially for purposes that will improve the size and efficiency of operations. The credit supply generally will be adequate. The pressure of high production costs will remain and possibly increase. But repayment of credit is expected to be good, on the whole, and debt distress will not be important except in limited areas.

The value of farmland for farming purposes has remained fairly stable for the last year, but continuing industrial and residential growth exerts strong upward pressure on market prices of land. Some farmers in the path of such growth sell their farms for such nonfarm uses, take nonfarm employment, or seek farms in areas where market prices are more nearly in line with agricultural values. Full-time commercial farmers are constantly in the market for additional land with which to enlarge their units. The total number of farms in the area has declined about 20 percent since 1950.

Farm Income.- For the Northeast, cash receipts from farm marketings during the first 9 months of 1955 were about 1 percent higher than in the same period of 1954. For the year as a whole the improvement over 1954 may be better. In the month of September 1955, receipts were 4 percent above September 1954. Receipts from crops in September were 6 percent lower than a year earlier but receipts for livestock and livestock products, mainly dairy and poultry which are very important in the Northeast, rose 10 percent. As of October 15, prices received for milk in New England were 3 percent higher, and in the Middle Atlantic 2 percent lower, than a year earlier. Prices of both poultry and eggs were significantly higher in October 1955 in both regions.

Farm Credit.- The non-real-estate debt (excluding CCC loans) held by banks and federally sponsored lenders during the year ended June 30, 1955, rose nearly 5 percent in New England and 6 percent in the Middle Atlantic States. Increases occurred in all States except Maine and Connecticut. The rise in farm real estate loans held by banks during this period was 6 percent and 9 percent, respectively, for the two regions. The amount of mortgages recorded by all lenders as a group in New England

was 26 percent higher in the first half of 1955 than in the first half of 1954, and for the Middle Atlantic States the recordings were 5 percent higher. Data available as of the end of September indicated further increases in both real estate and non-real-estate in these regions - possibly a higher rate of increase for farm real estate loans.

The major reason for the increase in loans is the squeeze between high costs and declining prices which has forced farmers to strive for greater efficiency and to reduce unit costs. The scarcity and high cost of farm labor are very important items in this industrial area. Additional credit has been used for such purposes as buying machinery and equipment and modernizing operating facilities. Some farmers have bought additional land and livestock to utilize equipment and facilities more fully. The expanded use of bulk milk tanks on farms has required financing in some dairy areas. Some irrigation systems have been financed in the vegetable and truck crop areas such as in southern New Jersey and southeastern and south-central Pennsylvania. The use of credit for capital improvements has been caused by both economic necessity and some degree of confidence in the future ability to make repayments. Activity in the farm real estate market is slow and it is not believed to be an important factor in the rise of debt. Some credit for consumer goods is being used by farm people but more caution is evident than by industrial or city workers.

The sharp rise in long-term farm real estate debt results in large part from the financing of the machinery and improvement expenditures. With farm incomes less favorable than during the earlier postwar years, many farmers have difficulty in repaying any large amount of short-term non-real-estate credit. Also, some old short-term loans have been refunded into long-term real estate loans.

The rise in non-real-estate debt in the Northeast in large part has resulted from increased operating costs, although financing capital expenditures has been a factor. In areas hit by dry weather this last summer dairymen were forced to borrow more for additional feed. Some of the increase in non-real-estate debt was caused by carryovers of unpaid 1954 loans such as poultry loans in New Jersey and in sections of New England. Operating credit requirements for potato producers were heavy because of the low receipts of 1954.

Credit continues to be relatively plentiful but lenders tend to screen applicants more carefully and to lend more conservatively. Interest rates have risen slightly and more security is often required on short-term loans. Also, more dairy farmers are being asked to give an assignment on part of their monthly milk checks. On the other hand, real estate loan appraisals continue high and some lenders report that longer terms are given on non-real-estate loans for financing capital expenditures.

North Central 2/

The financial situation of farmers in the North Central States is less favorable this fall than a year ago. Gross farm income in the region has been lower in 1955 than in 1954. Moreover, low prices of hogs have reduced the value of many farmers' livestock, and, in the western part of the Corn Belt, drought and extremely hot weather reduced yields of feed crops, adversely affecting prospects for income next year. Despite these changes, lenders report that most of their farm customers are in sound financial condition and that collections on farm loans are good. Farmers report that they have little, or no, trouble in getting the credit they need.

Farm real estate values increased in the North Central region about 5 percent during the year ended July 1, 1955, with about half of this gain occurring between March and July. New peak levels were reached in all States except Missouri and Wisconsin. Indications are that values have continued to increase since midyear. The number of farms offered for sale is limited largely to estate settlements and retiring farmers.

Farm Income.- Cash receipts from farm marketings in the North Central States, January through September, were about 6 percent lower in 1955 than in 1954. In Minnesota and North Dakota marketings were greater in 1955; they were less in all other States. Most farmers in the 6 counties of this region who reported in the Outlook survey indicated that their gross incomes were lower in 1955 than in 1954. Many also stated that their expenses were higher.

Most frequently cited causes of lower income in 1955 were lower prices, particularly for hogs, and drought which cut yields of corn, soybeans, sorghum, and other late crops in extensive areas. Commonly reported reasons for higher operating expenses were increased costs of operating and repairing machinery, higher prices of supplies and of new machinery, increased use of fertilizer, and more cattle on feed.

While net farm income in the North Central region as a whole is down in 1955, farmers in the southwestern part of the region, who suffered from extreme drought in preceding years, appear to be more favorably situated this year than last. Many of them had better wheat crops, and fall rains improved pastures and crop prospects for next year. However, severe drought and hot weather reduced sorghum yields in Kansas and Nebraska, and cut corn and soybean yields in eastern Nebraska, western Iowa, and surrounding areas. The effects of the shorter corn crop produced in these areas will probably affect farm income more next year than this.

2/ States included in this region are: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin. Counties covered by the Outlook survey include Barnes County, N. Dak.; Benton County, Ind.; Ellis County, Kan.; Marshall County, Iowa; Olmstead County, Minn.; and Seward County, Nebr.

Farm Credit.- Both non-real-estate credit and farm-mortgage loans have increased in the North Central region during 1955.

Reports of banks and federally sponsored agencies indicate that their non-real-estate loans to farmers (excluding CCC loans) on July 1, 1955, were 14 percent higher in the East North Central region and 15 percent higher in the West North Central region than a year earlier. Non-real-estate farm loans of member banks of the Federal Reserve System on October 7, 1955, were above the levels of a year earlier by percentages ranging from 6 percent for the Cleveland district to 18 for the Chicago district.

As reflected by July 1 data for banks and federally sponsored agencies, the greatest increases in non-real-estate loans to farmers occurred in States where cattle feeding is most important - Nebraska, Iowa, Illinois, and Indiana. Increases in these States during the year ending July 1, 1955, ranged from 16 to 28 percent compared with 8 to 12 percent in most other North Central States and only 2 percent in Kansas.

More cattle on feed during the 1954-55 cattle feeding season appears to have been the major reason for the greatly increased loans of principal lenders to farmers in the cattle feeding areas. However, lenders throughout the region report that lower farm income and higher costs are forcing more farmers to use credit and causing some to increase their borrowings. Increased use of fertilizer and purchases of replacement machinery are important causes of greater use of credit by farmers in this region.

A number of reports indicated that cattle feeders in eastern Nebraska and western Iowa were slow this fall in buying cattle for their feed lots. Because of the short corn crop, doubt was expressed that feeders in this area would buy as many cattle this fall as last. In eastern Iowa, Illinois, and Indiana, it was reported that a number of cattle feeders were buying more cattle before marketing the ones they had on feed.

Farm-mortgage loans also increased substantially in the North Central region during 1955. Recordings of farm mortgages during the first half of 1955 were 32 percent higher in the East North Central region and 42 percent higher in the West North Central region than in the first half of 1954. Farm-mortgage loans of all operating banks in the region were higher on July 1, 1955, than a year earlier by percentages ranging upward from 8 percent in Michigan to 20 percent in Nebraska. Member banks of the Federal Reserve System report that their farm-mortgage loans rose during the year ending October 5, 1955, from 8 percent in the Minneapolis district to nearly 18 percent in the Kansas City district.

Most commonly cited causes of the increase in farm-mortgage credit were increased refinancing of debts, which was often done to place short-term debts on a longer maturity basis, purchases of additional land at increased prices, use of mortgages to secure intermediate-term credits,

and, in the western part of the region, to finance installation of irrigation systems. A part of the increase was to provide additional or better security for production loans.

Carryovers from 1954, and other delinquencies, appear not to have contributed significantly to increased use by farmers of either non-real-estate or mortgage credit in 1955. Nor are they expected to affect significantly farmers' needs for credit in 1956. Some lenders report that payments are not quite as high this fall as last but that delinquencies will not be large. Slowing of payments by farmers is reported chiefly by dealers and merchants.

Lenders generally anticipate an increase in both non-real-estate and mortgage loans to farmers in 1956, for reasons similar to those given for the increase in 1955. However, feeder cattle loans are not expected to increase as much in 1956 as in the current year; some lenders think they may be no higher than this year. Dealers and merchants appear generally to expect that they may extend more credit to farmers in 1956 to maintain sales. But most farmers who reported in the Outlook survey stated that they expect to use no more credit in 1956 than in 1955.

Although lending institutions report that they are becoming somewhat more cautious in making loans to farmers, only a few of the farmers interviewed in the Outlook survey indicated that they have had any difficulty borrowing the amounts they request or that production credit is becoming more difficult to obtain.

All told, no serious credit problems are anticipated for 1956 by the reporting farmers and lenders.

<u>Liquid Assets</u>.- The liquid assets held by farmers in the North Central region appear to have declined slightly during the last year. Of the 61 farmers in 6 counties of the North Central region who reported in the Outlook survey, 20 reported that their holdings of cash, bank deposits, and United States savings bonds were lower this fall than a year ago; only 4 stated that their liquid assets had increased. But as 37 indicated no significant change, it seems probable that the aggregate change in liquid assets of farmers was small.

The reports of farmers on liquid assets are confirmed in general by reports of banks. Most of the bankers included in the survey indicated that their deposits this fall were not significantly different from a year ago and that farmers' deposits were holding up about as well as deposits of others.

Many farmers in the region have had to cut down on expenditures or increase their use of credit in order to maintain a necessary minimum of working funds. But the North Central region contains a considerable number of farmers who have accumulated large amounts of United States savings bonds and time deposits as well as current working funds. Some of these farmers have used part of their liquid reserves to buy more land

and to expand their operations. Others have drawn on their financial reserves to finance operations or maintain living standards.

Farm Financial Condition.- The financial condition of farmers in the North Central region appears to be somewhat less favorable this fall than a year ago. Of the 61 farmers in the 6 counties of this region who reported in the Outlook survey, 25 thought their financial condition was weaker this fall than a year ago. But 10 reported that their financial condition had improved and 26 reported no significant change.

Officers of lending institutions were more inclined than the farmers themselves to report that the financial condition of farmers was weaker this fall than a year ago. Generally speaking, the financial condition of dairy farmers was reported to be as good - and in some instances better - than a year ago, but that of hog producers was reported to be considerably weaker because of low hog prices. Cattle feeders and most other types of farmers were generally considered to be in the same or a slightly weaker financial condition. Reports on the condition of wheat growers varied, depending on the yield of the 1955 crop.

In reporting on the financial condition of farmers, lenders and farmers apparently gave little consideration to the increase in land values. Their views appeared to be governed chiefly by changes in crop yields, commodity prices, and the debts and liquid assets of farmers.

South 3/

On the whole, the financial condition of farmers in the South improved somewhat during the last year mainly because of high farm production. The debt position of most farmers is reported to be sound and some have been able to save some money. But the favorable crop and livestock output in 1955 can hardly make up for the losses sustained in many areas during the preceding drought years. Equipment and repair needs were allowed to accumulate and many farmers will require several good years to clean up past delinquencies.

Lenders report collections running as good as or better than last year. Areas having repayment difficulties include sections of the Carolinas hit by the hurricanes, fruit growers who suffered a late spring freeze, some cotton producers in parts of the Delta where rain was excessive, and potato growers on the Delmarva peninsula who are receiving low prices for their product.

The outlook for 1956 in the South is for a small decline in non-real-estate farm debt. The improved 1955 crop and livestock production

3/ Includes Delaware, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, and Louisiana. Counties covered by the Outlook survey include Cecil County, Md.; Johnston County, N. C.; Greenwood County, S. C.; Palm Beach County, Fla.; Sunflower County, Miss.

should reduce the need for debt carryovers. Expected acreage cuts for tobacco, cotton, and peanuts may lower operating credit requirements. Farm real estate debt because of demand for longer-term loans will probably continue to increase.

Land values increased from 3 to 4 percent in most Southern States during the 4 months ended July 1, 1955. This was about the same increase that occurred in the eastern two-thirds of the country. It followed a slightly larger than average decline in 1953 and early 1954 when drought temporarily reduced market activity. Generally favorable crop conditions in 1955 have contributed to a further rise in land values since midyear.

Farm Income.- Farm income in most sections of the South is expected to be higher in 1955 than in 1954. Weather conditions were generally favorable and excellent yields were attained for such crops as cotton, tobacco, corn, peanuts, and vegetables. Despite reduced acreage allotments total production of many crops in 1955 will exceed that of 1954, thus offsetting lower average prices received by farmers. Although receipts from marketings in the first 9 months of 1955 were about 1 percent less than in the same period of 1954 a marked improvement in receipts is expected for the last quarter of the year. In 1954, and in 1952 and 1953 in many areas, drought drastically cut incomes.

Farm Credit.- Total farm debt has been rising in the South. Farm real estate debt has expanded somewhat faster than short-term, non-real-estate debt. Outstanding non-real-estate loans (excluding CCC) of banks and federally sponsored lenders were higher on June 30, 1955, than a year earlier in all States except Delaware, Arkansas, and Louisiana. Loans in Delaware decreased 7 percent but the declines in Arkansas and Louisiana were less than 1 percent. Increases in non-real-estate loans ranged from less than 1 percent in Florida and Mississippi to about 9 percent in North Carolina. Farm real estate loans held by banks rose during the year ending June 30, 1955 in all States except in West Virginia where the decline was very slight. Increases in real estate loans of banks ranged from 2 percent in Delaware to 31 percent in Georgia. Total real estate loans recorded rose about a fifth in the South between the first halves of 1954 and 1955. Data available as of the end of September indicate that the upward movement of debt was continuing in the early fall.

The previous years of poor crops caused more farmers to use operating credit. It also caused existing borrowers to increase their loans and to carry over increased amounts of unpaid loans. Despite the fact that credit was extended and used more cautiously, many farmers entered the 1955 season with a substantially larger non-real-estate debt. Large amounts of new operating credit were used in 1955 because of heavy expenses for labor and materials. The expense of controlling boll weevil because of the wet season was reported to be especially large.

The several drought years and the heavy costs have induced some farmers to borrow to improve efficiency, and production. Considerable investment has been made in irrigation systems and mechanization - such as mechanical cotton pickers. Some livestock diversification and land purchases and improvements have also occurred. Financing of these investments has contributed somewhat to the rise in short-term, non-real-estate debt but its greatest impact has been on the growth of long-term farm-mortgage debt. Because of the decline in the margin of profit, the longest terms possible are desired by many borrowers, and lenders often insist on real estate security. The squeeze on profits has also resulted in the refinancing of considerable short-term debt, particularly unpaid operating debt incurred in 1954 and 1953. Farm real estate lenders report that many of their new loans are to refinance shorter term loans. Mortgage loans to finance farm transfers have not been as important as in some previous years.

West 4/

In the Western region the financial condition of farmers varies, but on balance it is probably not quite as good as it was a year ago. Farm debts have increased, and in 1955 income will probably be less than in 1954. Credit availability is generally considered adequate, but increased selectivity by lenders and stiffer security requirements are reported in some areas.

Trends in farmland values in the area have been divergent because of the wide range in type and quality of land in this area. Values of irrigated land were higher than a year earlier in most States as of mid-1955 and they have not changed appreciably since then. Continued efforts are being made by farmers to enlarge their operations by buying additional land. The stimulus to farm enlargement is particularly strong in the wheat areas. A Montana banker reports:

> Dryland farms, with a wheat allotment, are selling fantastically high - from $50.00 to $75.00 an acre for the entire acreage. In any number of cases, that makes the allotted acreage cost from $150.00 to $250.00 per acre. There seems to be almost desperate competition among the wheat farmers to acquire more land.

Prices of grazing lands dipped following the break in cattle prices in 1951, but they have remained essentially unchanged since then. Demand for additional land to enlarge existing ranches continues to be strong, although there is growing concern about the high capital investment in land per animal unit.

4/ For this report the following States are included in the Western region: Oklahoma, Texas, Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, and California. Counties covered by the Outlook survey include Duchesne County, Utah; Gallatin County, Mont., Whitman County, Wash.; Lynn County, Tex.; Madera County, Calif.

Farm Income.- Cash receipts from farm marketings in the Western region from January through September 1955, were 3 percent below the same period in 1954. Declines were shown for both crop and livestock receipts. The change from 1954 varied considerably by States. Receipts for this period were down 21 percent in Oklahoma, 7 percent in Texas, 8 percent in Colorado, 10 percent in Arizona, and 5 percent in Montana. Increases of 6 and 8 percent respectively were noted in Idaho and Wyoming.

As reported by farm lenders in this area and a small number of farmers included in the Outlook survey, farm operating expenses were generally about the same as in 1954 or somewhat higher. The chief reasons given for higher operating costs were higher machinery prices, higher wages, higher property taxes, and increased use of fertilizer and insecticides.

In 1955 as in the previous year farmers in the region continued their adjustments to generally lower net incomes resulting from continued high costs, lower prices, and in many parts of the area from acreage allotments and drought.

Merchants and dealers interviewed in the five counties included in the Outlook survey report sales generally steady to somewhat higher than in 1954. Sales of fertilizer and farm machinery were reported above those of a year ago, reflecting in part efforts to increase yields and reduce costs and in some instances low machinery replacement in previous years. Automobile sales were also up, and this may reflect more aggressive selling. Merchants generally reported reduced sales to farmers of household goods and appliances, hardware, and lumber. Many farmers in drought areas or who operate small farms have turned increasingly to nonfarm work to supplement their incomes.

Farm Credit.- Both non-real-estate farm debt and farm-mortgage debt increased in the Western region in 1955.

Farm-mortgage recordings in the first half of 1955 showed an average increase over the first half of 1954, or 15 percent in number recorded, 29 percent in dollar amount, and 13 percent in average size. The increase in the total amount recorded was about the same as for the country as a whole, but the increase in number of mortgages recorded was greater.

Outstanding loans (including Federal Farm Mortgage Corporation loans) of the Federal land banks serving this area were 16 percent higher in amount on September 30, 1955, than they were a year earlier. Farm real estate loans of Federal Reserve member banks in the year ended October 5, 1955, increased 10 percent in the San Francisco district, 14 percent in the Dallas district, and 18 percent in the Kansas City district. Farm real estate loans of all operating banks in the 14-State area on July 1, 1955, were 13 percent above the previous year. Life insurance companies and individual lenders probably shared in the increase in farm-mortgage debt as their mortgage recordings were higher in the first half of 1955 than in the first half of 1954. Farm real estate loans of the Farmers Home Administration declined slightly from October 1, 1954, to October 1, 1955.

Non-real-estate loans to farmers (excluding CCC loans) also increased. On October 5, 1955, the increase from a year before was 11 percent for Federal Reserve member banks in the San Francisco district, 9 percent for those in the Dallas district, and 14 percent for banks in the Kansas City district. PCA loans increased 10 percent in the Berkeley district from September 30, 1954, to September 30, 1955, 17 percent in the Spokane district, 11 percent in the Houston district, and 24 percent in the Wichita district. On June 30, 1955, non-real-estate loans of all operating banks in the Western region were 6 percent higher than a year earlier, PCA loans were up 7 percent, and Farmers Home Administration loans were 3 percent higher.

A major cause of the rise in farm debt in the area is reported to be the cost-price squeeze. Some farmers who were formerly self-financing have been forced by continued high costs and lower income to use short-term credit. Others who had been using short-term credit have found it desirable to refinance their debts with long-term real estate mortgages. The cost-price squeeze is also encouraging the purchase of land to enlarge farms and thereby maintain income; this tends to increase farm-mortgage debt. Drought has been a factor in the increase in short-term debt in some areas; in others a more favorable crop outlook after several years of drought has made credit more available and encouraged farmers to incur debts to make deferred purchases of such things as farm machinery, tractors, and automobiles. Development of irrigation has been a factor in the debt increase in some areas.

In the five counties from this region included in the Outlook survey, debts of farmers generally increased during 1955. In Lynn County, Tex., better availability of credit appeared to be one cause although the continued high cost of living and high production expenses were another. Here, where there have been several years of short crops, prospects for better 1955 crops increased the availability of credit, particularly from merchants. About half the farmers included in the Outlook survey in this county increased their borrowings in 1955. Enlargement of farms and lower farm incomes were reported causes of a rise in farm debt in Duchesne County, Utah. Higher operating costs and a tendency to make wider and more extensive use of credit were factors in Madera County, Calif. Poorer wheat yields and lower price supports reduced farm income and debt repayment in Whitman County, Wash., and increased expenses and lower incomes were reported as causes of the increase in farm debt in Gallatin County, Mont.

Apparently, in the Western region there was no major change in the last year in availability and terms of credit. Nongovernmental lenders appear to be somewhat more selective, particularly in drought areas, but apparently the amount loaned per borrower is increasing. Possibly there is somewhat more careful analysis of security, and if this is insufficient the farmer is referred to the Farmers Home Administration. A decline in the value of machinery on farms in some drought areas has made it difficult for farmers to provide the security required for non-real-estate loans. An increasing number of bank and PCA loans involve a first or second real estate mortgage as additional security. In the case of

farm-mortgage credit an upward revision in Federal land bank appraisals and loan limits increased land bank loans. No major change in policies of insurance companies in regard to real estate loans is reported except for some stiffening of interest rates.

Collections on short-term and farm-mortgage loans vary. Small farmers are reported as having some repayment difficulties, and generally collections may be a little slower than in 1954. However, collections apparently depend chiefly on local crop conditions.

In the Wichita Farm Credit district, carryovers, delinquencies, and refinancing are reported to be major factors in the expansion of debt. Although PCA loans made in the first 9 months of 1955 increased $9 million over the same months in 1954, collections were down $2.6 million, renewals were up $1.6 million, and outstanding loans increased from $45 million on September 30, 1954, to $56 million a year later. The quality of loans increased because more security was obtained. In the Houston Farm Credit district collections were reported not as good in 1955 as in 1954 on Federal land bank loans, and an increase in delinquencies has occurred. However, the amount collected on PCA loans in the Houston district in the first 9 months of 1955 was higher than in the same period in 1954. Delinquent loans of the Federal Land Bank of Berkeley declined this year. The Federal Reserve Bank of Dallas reports that bankers generally have had a good collection experience this year, and similar bank experience is reported by the Federal Reserve Bank of San Francisco.

Generally, both lenders and farmers agree that the demand for agricultural credit will continue strong in 1956, particularly to finance continued high production costs and farm enlargement. In areas which have had prolonged droughts a return to normal production will increase the demand for credit to finance deferred expenditures. Credit should be available in 1956 on terms and conditions not greatly different from those in 1955.

Farm Financial Condition.- The financial condition of farmers in the Western region is probably not quite as good as a year ago. Farm debts have continued to rise relative to farm income, but there is considerable variation depending on local crop conditions and prices of farm products. On the whole, the liquid assets of farmers may be down a little from 1954. Of the counties surveyed for this Outlook report liquid assets of farmers were reported probably less than a year ago in Duchesne County, Utah, Gallatin County, Mont., and Whitman County, Wash. In Lynn County, Tex. and Madera County, Calif. liquid assets were reported as probably the same or possibly a little higher. Small farmers are relatively worse off than larger farmers as reduced incomes leave less above living expenses. In the counties surveyed for this Outlook report, the reports were that cattle and sheep ranchers, fruit growers, and cotton farmers were probably in about the same financial condition as a year earlier while wheat farmers in Washington were in somewhat worse condition. Sheep and cattle ranchers in Gallatin County, Mont. were reported in somewhat worse financial condition but substantially no change was reported for those in Duchesne County, Utah.

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